HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Gatineau[1]

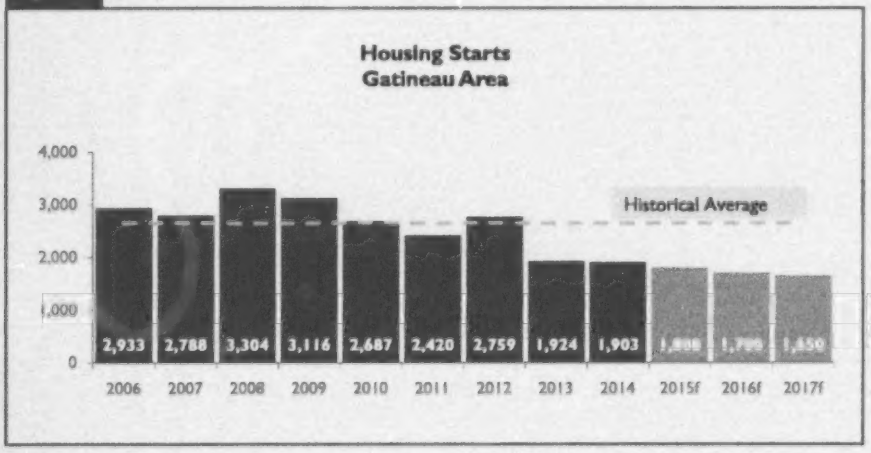
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2015

Highlights

- Economic and demographic conditions will support housing demand over the forecast horizon, albeit modestly.
- Housing starts will slow down, falling to 1,800 units in 2015, 1,700 in 2016 and 1,650 in 2017.
- Centris® sales will recover with growth, but will remain relatively low. They will increase to 3,500 units in 2015, 3,600 in 2016 and 3,700 in 2017.
- The vacancy rate will decrease slightly, but will remain above the historical average. It will be 6.3 per cent in 2015, 6.1 per cent in 2016 and 5.7 per cent in 2017.

Figure 1



Source: CMHC f: CMHC forecasts

[1] Quebec part of Ottawa-Gatineau CMA

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of September 28, 2015.

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New home market: adjustment will continue over the next two years

In the past two years, housing starts have slowed down in the Gatineau area. From 2015 to 2017, the high supply of newly completed, but vacant, units, and that of existing units, will limit needs with regard to new units. However, expected growth in employment and the number of households will support housing demand, which will moderate the anticipated decrease in activity. Therefore, housing starts will slow down slightly year after year over the forecast horizon. In 2015, 1,800 housing starts will be recorded (-5 per cent); this number will then fall to 1,700 in 2016 (-6 per cent) and to 1,650 in 2017 (-3 per cent). These levels are well below those recorded in recent years.[2]

The adjustment to the new home market will be observed in particular with regard to multi-unit housing,[3] specifically condominiums and rental apartments. Already this year, faced with a record level of unabsorbed new condominiums (see text box), builders have slowed down and seem to have postponed starting some major projects. In 2016 and 2017, the increase in housing demand should allow builders to gradually reduce their inventory by selling or renting their unabsorbed units. In other words, the number of additional units required to meet the demand will remain low because some of those seeking condominiums will turn to the available supply. As a result, few new condominiums will be built in the next two years. In the rental apartment segment, the number of vacant units will remain high (see the section on the rental market) and few builders will have the incentive to move forward in this market segment over the forecast horizon.

Conversely, semi-detached and row housing starts will continue to progress slightly this year and over the next few years, which will moderate the anticipated drop in multi-unit construction. In addition, semi-detached and row housing construction will continue to be favoured over single-detached home construction, in particular in the city of Gatineau. For one thing, these housing types tend to be relatively more affordable and therefore more attractive to some groups of buyers. For another thing, they better meet the density restrictions set by the City of Gatineau land use and development plan, to which builders will have to adhere.[4]

All in all, multi-unit housing starts will slow down, totalling 1,350 in 2015 (-5 per cent), 1,275 in 2016 (-6 per cent) and 1,250 in 2017 (-2 per cent).

Single-detached housing starts will decrease slightly. This type of development will continue to be moderated by the limited number of available residential lots, especially in central areas of the city of Gatineau. Most of the construction will occur on the outlying area of the city. Therefore, single-detached housing starts will total 450 units in 2015 (-6 per cent), 425 in 2016 (-6 per cent) and 400 in 2017 (-6 per cent).

Existing home market: beginning to pick up somewhat

After having reached a low in 2014, the number of Centris® sales will pick up this year. The number of buyers of existing homes will be on the rise under the effect of improving employment prospects and low mortgage rates. This trend will extend into 2016 and 2017, but will be moderated by the slight increase in mortgage rates anticipated near the end of the forecast horizon. In addition, the pool of potential buyers will be sustained by modest demographic growth in the 25–44 age group; this will also support demand for existing homes throughout the period under review. Across the various market segments, the rise in sales will mainly be seen for single-family homes, which will continue to be the main type sold. However, given the growing weight of condominiums in the area's existing dwelling stock, condominium sales will also increase somewhat. All in all, recovery will begin this year with a total of 3,500 sales (+5 per cent) and will continue in 2016 and 2017 with 3,600 (+3 per cent) and 3,700 (+3 per cent) transactions, respectively. However, levels will remain low in comparison with previous years.[5]

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[2] From 2004 to 2014, the average was about 2,650 starts annually.

[3] Condominium or rental apartments, semi-detached, row homes.

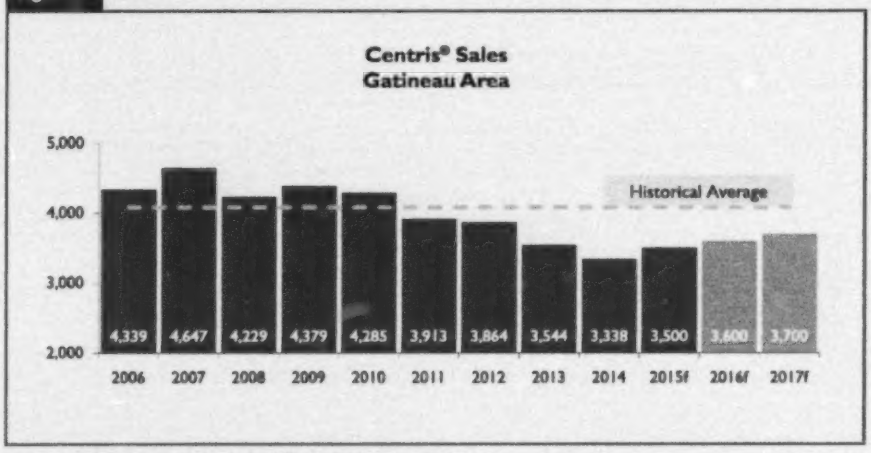
[4] http://www.gatineau.ca/docs/guichet_municipal/urbanisme_habitation/revision_schema_amenagement_developpement/documents_references/20131002_saddr.fr-CA.pdf (French only)

[5] On average, from 2004 to 2014, the resale market had recorded 4,078 transactions annually.

On the supply side, listings on Centris® (that is, all properties put on the market through this system) will increase steadily. Despite the anticipated slight increase in transactions, the number of new listings will continue to grow. Therefore, with times to sell that will remain just as long and persistent, the pool of active listings will hit new heights year after year over the forecast horizon. All in all, the average annual number of active listings will reach 3,600 units (+17 per cent) in 2015, 3,800 (+10 per cent) in 2016 and 3,900 (+6 per cent) in 2017. The most notable growth is expected in the condominium segment, where construction has increased in recent years, and which units tend to change hands more often than single-family homes.

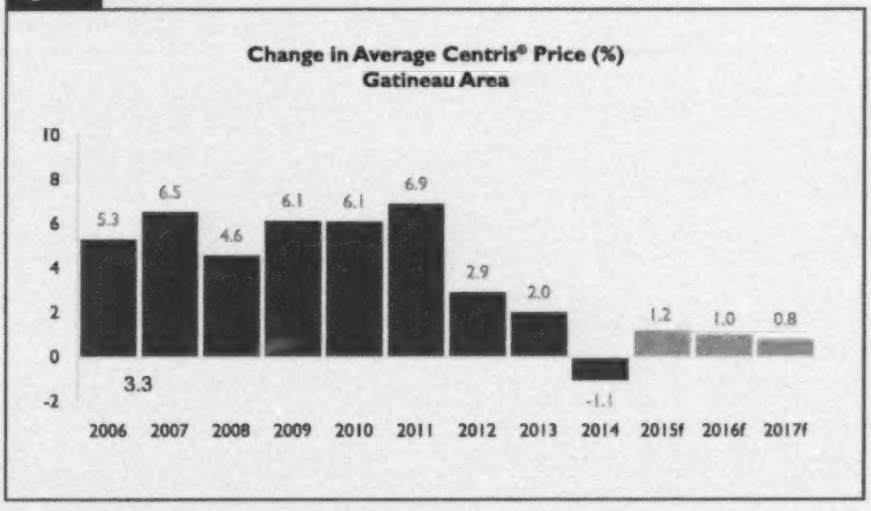
Therefore, although transactions will pick up somewhat, the level of supply compared to demand will remain such that market conditions will continue to be favourable to buyers. These resale market conditions will generate little pressure on prices for the entire period under review. Therefore, the average Centris® price will increase by around 1.0 per cent from 2015 to 2017. The average Centris® price will be approximately $243,500 in 2015, $246,000 in 2016 and $248,000 in 2017.

Figure 2



Source: QFREB, statistics Centris® & CMHC forecasts

Figure 3



Source: QFREB, statistics Centris® & CMHC forecasts

Rental market: vacancy rate will remain high despite a slight dip

In recent years, the proportion of vacant units has increased significantly in the Gatineau area, so much so that it reached a 16-year peak of 6.5 per cent in 2014. This easing was mainly due to a decrease in rental demand, which notably suffered from a less dynamic job market.

This year and over the next two years, this proportion will drop slightly: the rental vacancy rate will dip to 6.3 per cent in 2015, 6.1 per cent in 2016 and 5.7 per cent in 2017. The rate will still remain at a historical high, however.[6] This market change will be due to slight increases in demand and supply.

On the one hand, rental demand will increase moderately. The combined effect of marginal rise in net migration (see section on demographic trends) and gains in youth employment will slightly boost the number of tenants looking for housing in the next few

[6] On average, from 2004 to 2014, the rental market recorded a vacancy rate of 3.3 per cent.

years. That said, fierce competition from the rental condominium market will continue to attract a significant number of tenants. In all likelihood, rental condominium supply will likely continue to be sustained by the abundance of unsold condominiums on the new home market and the soft conditions on the resale market. As a result, some of these new potential tenants are expected to look to this market rather than the conventional rental market, especially those with higher income. This important factor will partially limit the expected increase in conventional rental housing demand.

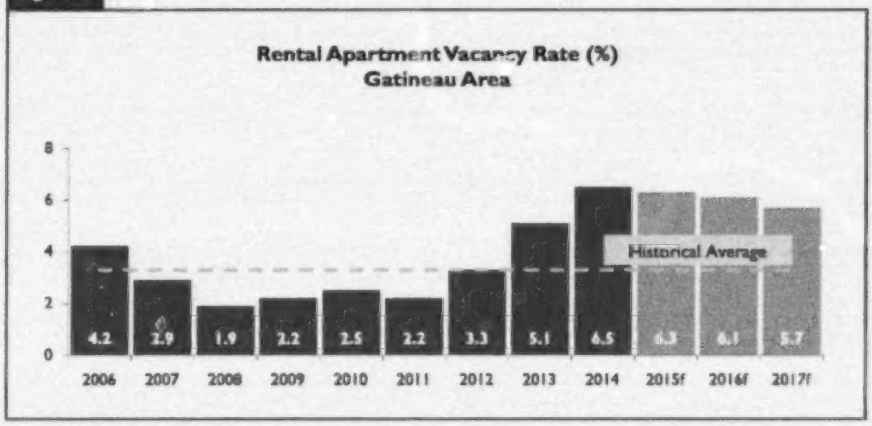
On the other hand, conventional rental housing supply will only increase marginally, since few new units will be started from 2015 to 2017.

Because of this dynamic, the number of vacant units will gradually drop, but will remain high over the next few years.

Economic and demographic trends: return to job and net migration growth

After weakening, the job market in the Gatineau area picked up somewhat last year. With support from the trade and public administration sectors, the job market continued to grow in 2015, so much so that the year will close with a rise in employment of about 3.1 per cent. This upturn was seen in full-time employment

Figure 4



Source: CMHC f: CMHC forecasts

and among workers aged 25–44, who make up a significant portion of homebuyers in the area.[7] There was also growth in the number of young workers, who make up a significant portion of tenants. This upward trend will continue over the next few years. Gains will notably be seen in the trade sector, supported by a forecasted increase in household consumer expenditures. However, provincial finance–balancing measures will limit public investments, notably in health care and education, which will be reflected in job growth in those sectors. Changes in federal public service employment remain uncertain for the next few years. Ultimately, in 2016 and 2017 job growth in the area will be around 1.8 per cent, which will provide some momentum for housing demand.

Demographically speaking, forecasts from the Institut de la statistique du Québec indicate that household growth will be moderate over the forecast horizon. It will vary between 1.7 and 1.6 percent from 2015 to 2017. Household growth will fall from 1.3 per cent in 2015 and 2016 to 1.1 per cent in 2017 for the 25-44 age group.[8] As a result, the pool of potential homebuyers and need for additional units will grow modestly.

Net migration for the area has declined significantly since 2012, when employment began to slow down. With renewed job market growth, the Gatineau area will become more attractive once again, which will limit population loss. Despite the forecasted recovery, net migration will not fully bounce back and will remain below the average of the past few years.[9] It will rise to 700 in 2015, 900 in 2016, and 1,100 in 2017. This growth, albeit small, will notably boost rental market demand.

[7] According to data from Statistics Canada's National Household Survey, close to 70 per cent of homebuyers in the Gatineau area were less than 44 years old.
[8] Source: Institut de la statistique du Québec, *Perspectives démographiques du Québec et des régions, 2011–2061*.
[9] On average, from 2004 to 2014, net migration was at 2,250.

Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand.
Employment	Employment will increase slightly over the forecast horizon, thereby supporting housing market demand.
Income	Weekly earnings will rise marginally every year of the forecast horizon. This income growth will support housing demand.
Population	Net migration will bounce back but remain relatively low, which will modestly boost housing demand in the area.
Resale Market	Despite increased transactions, buyers continue to be offered a vast selection of existing properties, which in turn will partially limit new housing demand.

Forecast risks

This outlook is subject to some risks, including the following:

- The public sector is crucial to the job market in the area.[10] A significant increase in hiring in this sector could result in a stronger-than-expected housing demand. However, layoffs could reduce the expected growth in housing demand. Uncertainty remains with regard to employment growth in this sector over the next few years.
- If the area's economic situation improves less than expected, net migration could be lower than forecast, meaning weaker renter household formation. Should that be the case, rental market conditions could tighten more slowly than expected.
- If condominium starts rise over the next few years rather than slow down as expected, the inventory of new and unabsorbed condominiums could rise further. In that case, homebuyers looking to acquire this housing type would have even more to choose from. This could result in lower growth in prices on the new home market as well as on the resale market. Moreover, this could also have an upward effect on the number of rental condominiums and which could cause rental market conditions to ease rather than tighten as expected.

[10] Nearly one out of four jobs in 2014 in the Gatineau area. Source: Statistics Canada, *Labour Force Survey*, 2014, North American Industry Classification System.

2015

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Spotlight on...

Increase in the inventory of completed and unabsorbed homes in the Gatineau area

In recent years, the inventory of new and unabsorbed homes in the Gatineau area has trended up, and the trend continued this year. In all, the number of unabsorbed housing units reached a record high of 475 units in August 2015. [1] This result is attributable to a relatively low need for new units, combined with an increase in starts of certain housing types.

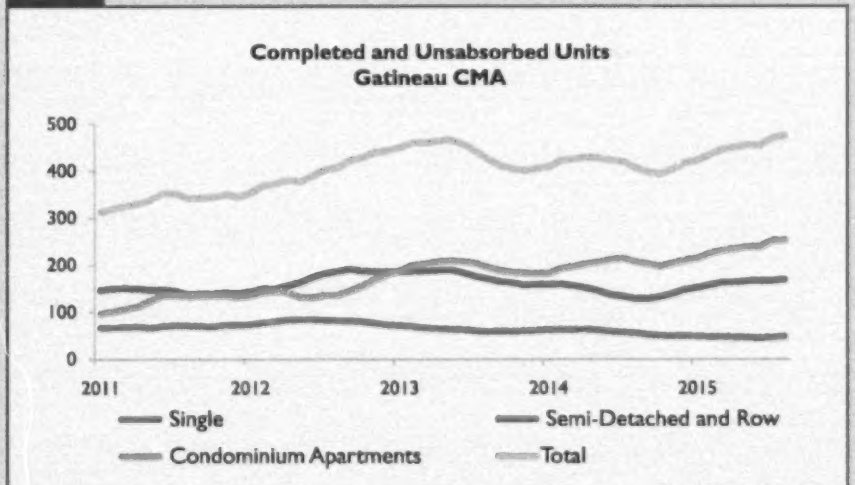
In the condominium apartment segment, the number of unabsorbed units rose significantly in 2015, mainly because of modest demand and a slight increase in construction in this segment in 2014 (+20 per cent). In August, approximately 254 units remained vacant, which is very high compared to the annual average of 123 units for the last 10 years. Most of the inventory of vacant new condominiums was located in Aylmer and Hull, sectors that have also been the focus of the development of the condominium market in recent years.

In the semi-detached and row home segment, the inventory of unsold new units has also risen slightly since the start of the year, reaching approximately 168 units in August. The increase in demand was not enough to offset the increase in housing starts recorded last year (+14 per cent). Therefore, though it remains below the peak of 200 units reached in 2013, the inventory remains slightly above the 10-year average of 105 units. Moreover, the majority of the inventory of this housing type was located in Aylmer.

As for the single-detached home segment, it continues to record a steady number of unabsorbed new units. In fact, the steady decline in starts in this segment has allowed for gradual clearing of the inventory in recent years. The inventory level was less than 50 units in August, just slightly below the average of the last 10 years (68 units).

In sum, the inventory of unsold new homes remains high for condominium apartments and, to a lesser degree, for semi-detached and row homes in the central sectors of the city of Gatineau. Over the next few years, the expected drop in starts, which will primarily occur in the condominium apartment segment, combined with an increase in demand, should help reduce part of the excess inventory of new homes.

Figure 5



Source: CMHC

[1] All the data in this section are based on the moving average of the last six months.

Forecast Summary Gatineau CMA Fall 2015									
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	688	475	479	450	-6.1	425	-5.6	400	-5.9
Multiples	2,071	1,449	1,424	1,350	-5.2	1,275	-5.6	1,250	-2.0
Starts - Total	2,759	1,924	1,903	1,800	-5.4	1,700	-5.6	1,650	-2.9
Average Price ($):									
Single-Detached	366,940	380,056	405,222	420,000	3.6	430,000	2.4	435,000	1.2
New Housing Price Index (% chg.) (Ottawa-Gatineau)	2.6	0.4	-1.1	2.0	-	1.5	-	0.0	-
Resale Market[1]									
Centris® Sales	3,864	3,544	3,335	3,500	4.9	3,600	2.9	3,700	2.8
Centris® Active Listings	7,165	7,706	7,970	8,700	9.2	8,900	2.3	9,100	2.2
Centris® Active Listings	2,353	2,807	3,273	3,600	10.0	3,800	5.6	3,900	2.6
Centris® Average Price ($)	238,536	243,355	240,688	243,500	1.2	246,000	1.0	248,000	0.8
Rental Market[2]									
October Vacancy Rate (%)	3.3	5.1	6.5	6.3	-	6.1	-	5.7	-
Two-bedroom Average Rent (October) ($)	743	744	750	755	0.7	760	0.7	765	0.7
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	172,900	171,000	173,200	178,500	3.1	181,700	1.8	185,000	1.8
Employment Growth (%)	0.7	-1.1	1.3	3.1	-	1.8	-	1.8	-
Unemployment rate (%)	6.3	6.3	7.0	7.3	-	6.8	-	6.5	-
Net Migration	1,822	663	259	700	170.3	900	28.6	1,100	22.2

[1]Source : QFREB by Centris®. The Centris® system contains all the listings of Québec real estate brokers.

[2]Rental universe = Privately initiated rental apartment structures of three units and over.

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2015-2017)

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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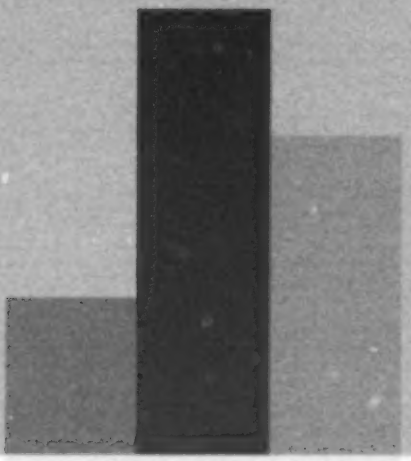

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